

# A Guide to Helicopter Money

by NAB Group Economics

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National  
Australia  
Bank

- With some commentators seeing existing monetary policy tools as either being exhausted or ineffective, there has been speculation that the next 'unconventional' tool to be deployed by central banks will be 'Helicopter Money'. Helicopter Money typically refers to the central bank sending money to households or to a central bank financed government fiscal stimulus.
- Unlike 'QE', Helicopter Money has an explicit fiscal element. Moreover, in a Helicopter Money operation the central bank commits to making any asset purchases permanent and to not paying interest on the resulting bank reserves. It differs from a normal fiscal stimulus as it is not financed by interest paying debt (a bond issued to the public) but by money creation by the central bank.
- Introducing Helicopter Money will potentially affect existing monetary policy goals and tools. For example, it might require a change to the inflation target and changes to the system of interest on reserves. It could also complicate how monetary policy will operate in circumstances when the central bank seeks to tighten monetary policy.
- The key channels through which it is expected to work are increased demand for goods & services (either by government or households) and by raising inflation expectations, thereby lowering real interest rates. Proponents also argue it gets around possible problems with normal fiscal stimulus – crowding out (though higher interest rates) and households increasing savings as they perceive a future higher tax burden.
- In theory Helicopter Money should result in some combination of inflation and real economic growth. Exactly what the mix will be is harder to determine, and it is even possible for inflation to be rising while real activity goes the other way. How individuals and business react to Helicopter Money, and how it changes their expectations of the future, will be an important determinant of its effectiveness.
- While a central bank money financing government spending is not new, there are good reasons why it is considered a 'taboo'. There are many cases where too much money printing has led to hyperinflation, with disastrous consequences.
- What this points to is the need for credible institutions and the need for any Helicopter Money program to be consistent with the inflation goals of the central bank. An open question is whether credible arrangements could be put in place given political realities.
- Legal and political obstacles to Helicopter Money vary by country. Of the major advanced economy central banks, the European Central Bank is the one facing the greatest possible constraints, given legal prohibition of (direct) money financing of governments by the ECB, the lack of a central fiscal agency and the difficulty of getting agreement amongst member states.

## Contents

<a href="#">What is Helicopter Money</a>	2
<a href="#">How does it differ to QE &amp; Budget deficits</a>	3
<a href="#">How does it fit with existing policy</a>	5
<a href="#">How is supposed to work</a>	7
<a href="#">Will it work</a>	8
<a href="#">Risks and pitfalls</a>	9
<a href="#">Has it been done before</a>	10
<a href="#">Can it be done</a>	11
<a href="#">When &amp; where it might be used</a>	13

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# What is Helicopter Money?

- The term ‘Helicopter Money’ comes from a thought experiment by Milton Friedman in which helicopters dropped money from the sky.
- Of course, no one is actually proposing this. The closest actual suggestion to this is for the central bank to send cheques to households (or to make deposits into their bank accounts).
- In fact, many suggestions have been lumped under the umbrella of ‘Helicopter Money’ – the box on the right lists some of the proposals that have been put forward.
- Apart from the central bank sending out cheques, usually Helicopter Money proposals come in the form of fiscal stimulus – government directly buying goods and services or sending money to households (via tax cuts, rebates or some other means) which is financed by the central bank.
- While there are other proposals called Helicopter Money, for the rest of the note, we will take it to mean either the central bank sending out cheques to households or financing a government fiscal stimulus.



## Suggested forms of Helicopter Money

- *Money financed fiscal stimulus:* Fiscal stimulus (i.e. Government spending on goods and services, or tax cuts or payments to households) funded by:
  - (1) The central bank crediting the Government’s (Treasury) account with the central bank
  - (2) A government bond issue which is then purchased by the central bank (either directly or indirectly). Some proposals suggest that this debt is either:
    - (i) Rolled over in perpetuity, or
    - (ii) Issued as, or converted into, a non-interest bearing non-redeemable asset (e.g. perpetual zero coupon bonds), or
    - (iii) Written-down or cancelled or forgiven (‘haircuts’).
  - (3) Borrowing from the banking system (not households) – either through banks buying government bonds or providing loans.
- *Money to the people:* central bank gives ‘cheques’ directly to the public. Alternatively the central bank could credit their bank accounts.
- Central bank provides perpetual, zero-interest loans to banks who in turn provide loans (up to a maximum per person) on the same terms to the public.
- Central bank unilaterally cancels or restructures its holdings of government debt.

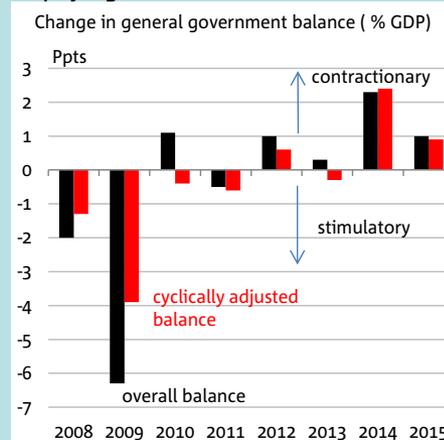
# QE was ‘printing money’ – what’s different

## Difference to Quantitative Easing

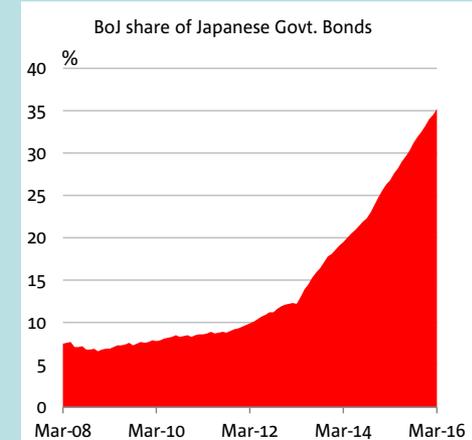
- In recent years several central banks – the U.S. Federal Reserve, the Bank of England, the Bank of Japan and the European central bank – have engaged in so-called ‘Quantitative Easing’ programs. These involve the purchase of assets, typically (longer-term) government bonds in the secondary market by the central bank.
- To finance its asset purchases the central bank would simply credit the account of the seller of the bond. This leads to an increase in bank deposits with the central bank – i.e. bank reserves, a form of base money. As a result, it was often described as ‘money printing’ by the central bank.
- If Helicopter Money involves the central bank creating new money how do the two differ? Many proponents of Helicopter Money argue the key differences are:
  - ❖ Fiscal stimulus: the QE programs were independent of government fiscal policy – sometimes the budget deficits were getting bigger (stimulus) sometimes smaller (contractionary). Note a budget deficit is not regarded as stimulus by itself – but a larger deficit is. For Helicopter Money there is (normally) a fiscal element; as a result some commentators call a combined QE and fiscal stimulus package Helicopter Money.
  - ❖ Permanence: the idea behind QE is that when the economy has recovered the central bank would sell the assets. As a result, households/markets and the Government do not see QE as ultimately financing government budget deficits.
  - ❖ Related to the above, Helicopter Money creates an asset for households and no liability for anyone else. QE is an asset swap – money for your bond. With Helicopter Money you should feel better off – you (or the Government) is given money which will never have to be repaid. To make this point totally clear is why some proposals call for the central bank to write-off any loans made to the government.

## Is Abenomics an example of Helicopter Money?

- Shinzo Abe’s election as Prime Minister of Japan heralded the start of so-called ‘Abenomics’ which had three ‘arrows’ – aggressive monetary policy, flexible fiscal policy and a growth strategy.
- Monetary policy was certainly aggressive – the Bank of Japan (BoJ) sought to take Japan out of a long period of deflation by announcing large scale asset purchases (QE) and a 2% inflation target. The Government, starting in January 2013, also announced a series of fiscal stimulus packages.
- The size of the BoJ’s asset purchases was, and continues to be – significant. The BoJ are buying all of the Government’s new issuance each year plus some. As a result their share of the stock of Government bonds (JGBs) is rising rapidly
- However, there are some key differences with Helicopter Money. The first is that, there was no explicit commitment to making the asset purchases permanent. Emphasising this point, Japan has in the past unwound a QE program. At the time Abenomics was introduced, the Government announced medium-term targets to display its commitment to getting its budget in order. Despite the announced fiscal stimulus packages, fiscal policy may only have been mildly stimulatory in 2013 (or not depending on the measure used) and has been contractionary since then.
- While it has changed recently, at the start the BoJ was paying interest on reserves at 0.1% - so it was buying JGBs by issuing what amounted to a debt paying instrument.



Source: IMF Fiscal Monitor, April 2016



Source: Japan Macro Advisors

## ... & we have budget deficits – what’s different?

### Difference to normal fiscal stimulus

- Under a normal – bond-financed – fiscal stimulus, the government issues bonds which are bought by the private sector.
- The most obvious difference is that the central bank is not involved at all. This is purely a ‘fiscal’ action.
- It’s not just the label that differs – the bonds issued by the government are a liability that needs to be paid-off and serviced (through regular interest payments). As such they reduce future fiscal flexibility and give rise to discussions about how the liability will be paid off – e.g. future tax rises – which may lead households/businesses to increase savings now, offsetting any stimulus. There are also concerns about crowding out private sector activity, in the event that government bond issues raise interest rates.
- Following on from this, households (and business) don’t feel any wealthier – buying government bonds simply represents a change in their mix of assets.
- In contrast, the idea with Helicopter Money is that the government faces no real liability (at worst it is in name only and will never be paid off).

### Difference to QE and normal fiscal stimulus

- The differences are getting small at this point and some consider QE and fiscal stimulus to be Helicopter Money (particularly in the Euro zone, where even purchases of government debt could help alleviate fiscal constraints on many governments). One main point of difference remains one of permanence – QE is supposed to be temporary while Helicopter Money is not.
- Another difference is that there should be no interest on reserves created by Helicopter Money, as the payment of interest means that the stimulus is being financed by an interest bearing liability (see discussion on how Helicopter Money fits in with existing monetary policy frameworks).
- Not everyone agrees that permanence is important – do households worry about future tax liabilities when they get a cheque from the Government? Probably depends – clearly if told they would have to repay it tomorrow then they would worry. Between this extreme and the other of permanence there is plenty of grey.

Helicopter Money

=

Fiscal stimulus

+

Permanent QE

+

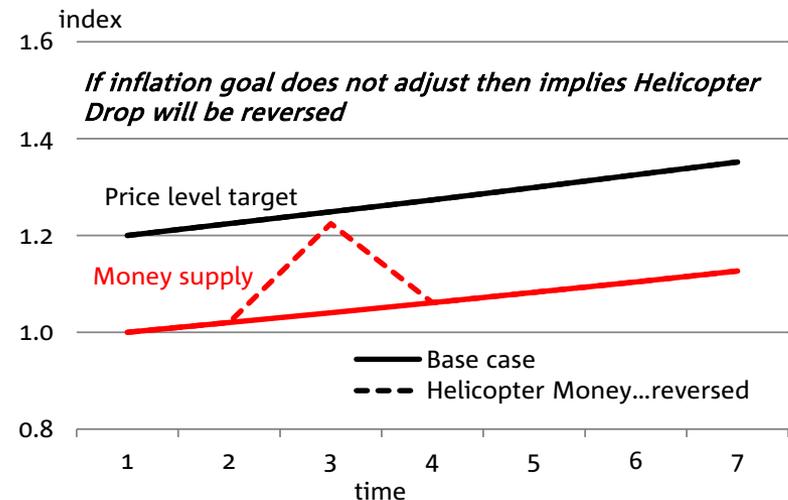
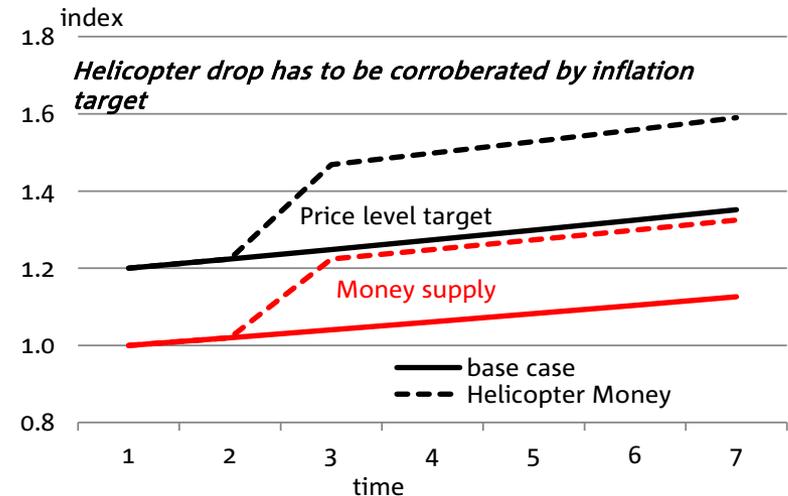
No interest on bank reserves

# How does it fit in with existing monetary policy frameworks?

## Implications for existing targets and goals of monetary policy

- Helicopter Money cannot just be added onto existing frameworks – it has implications for interest rates setting, not just now but into the future, bank inflation targets and other aspects of central bank policy – particularly interest on (excess) reserves (IOR).
- The fundamental choice open to a central bank is either to target the quantity of money or the price ('interest rates'). Helicopter Money, as its name suggests, is targeted at the quantity rather than the price. It is true that for policy rates such as the fed funds rate the Fed can set what it likes (regardless of the quantity of money) by paying interest on reserves (or receiving interest if it sets a negative deposit rate). But the only purpose in changing these rates are to influence market determined rates (i.e. those for home mortgages, business loans etc).
- It also raises issues for inflation targets. The former Fed Chair, Ben Bernanke has stated that the introduction of Helicopter Money might require the Fed to temporarily raise its inflation target or, equivalently, set a higher price level it is aiming for. This in part relates to the view that the public must believe that Helicopter Money is permanent for it to be effective and over time permanently more money should mean permanently higher prices.
- Indeed one view is that to the extent Helicopter Money might be effective it is only because it leads to a credible change in the inflation target.
  - ❖ One possible example of this is that Japan's QE program in the 2000s had little impact on inflation, but that the more recent program has had more success because it was accompanied by a clearer and more credible commitment to a higher inflation target.
  - ❖ Another example of the importance of 'regime change' has been noted in the case of several hyperinflations (Germany, Austria, Hungary and Poland in the 1920s) which ended, even as the printing presses continued to run, as credible policies and arrangements to get inflation under control were announced.
- Clearly, in the case where the monetary policy is not meeting its existing target – particularly where inflation is too low – Helicopter Money could be calibrated towards achieving that target rather than a new one. Indeed one of the reasons it is being advocated is the inability of central banks currently to meet their inflation targets.

## Stylised examples of link between Helicopter Money and inflation target



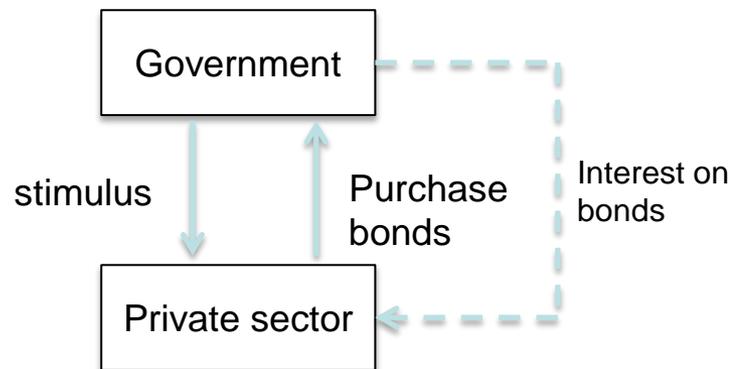
# How does it fit in with existing monetary policy frameworks?

## Implications for Interest on Reserves

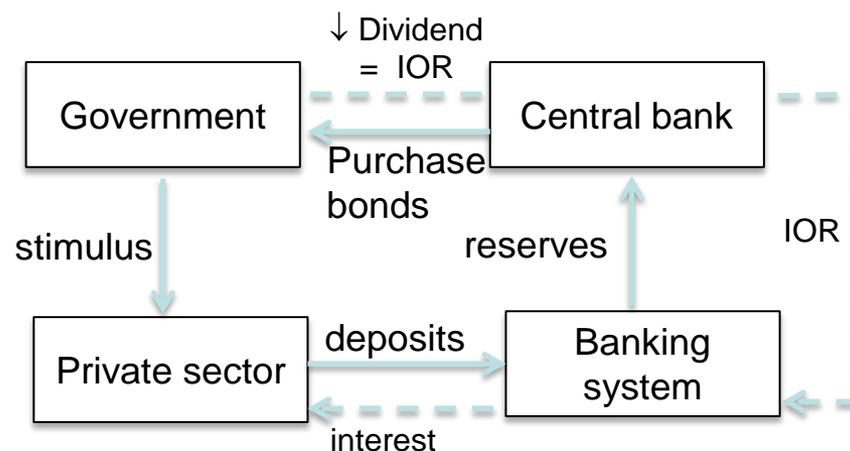
- Reserves are deposits financial institutions have with the central bank.
- Central banks that currently pay interest on reserves would need to make an adjustment. Helicopter Money would have the effect of creating bank reserves (as did QE), regardless of the form it takes.
- So, in the case of money financed fiscal stimulus, while the central government may feel that the spending has no fiscal impact, it has in fact been financed by an interest bearing liability – bank reserves – issued by a government agency (the central bank). Unlike QE, the central bank has not picked up a corresponding interest paying asset. This means any current (and future) profits it pays to Government would fall.
- Some central banks now charge banks for depositing money with them. If this were the practice (and applied at the margin to the extra reserves created by a helicopter drop), then it would be the banks who were financing the stimulus. Again, this is not the idea of Helicopter Money which is to create the impression of wealth gains (not simply a wealth transfer).
- However, just abolishing the system of interest on reserves isn't a simple solution. The QE programs have created huge levels of bank reserves. Removing IOR would have the following implications: 1) a reduction in bank profitability (a concern already in some countries), and 2) interest on reserves is the means by which the central bank can increase interest rates *in the future* given the existence of a large amount of reserves. Without having control of future interest rates then central bank's commitment to keep inflation under control will lack credibility.
- We have seen in the case of negative interest rates, the introduction of tiering – i.e. banks receive interest on some deposits with the central bank and on others they pay. Something akin to this might occur if Helicopter Money was introduced. For example, the former head of the Federal Reserve, Ben Bernanke has suggested that if the Fed were to use Helicopter Money it could institute a permanent levy on the banks which would exactly offset the amount of interest they receive from having higher reserves.

## Similarity of standard fiscal stimulus and Heli. Money with interest on reserves (IOR)

### Standard (bond financed) stimulus

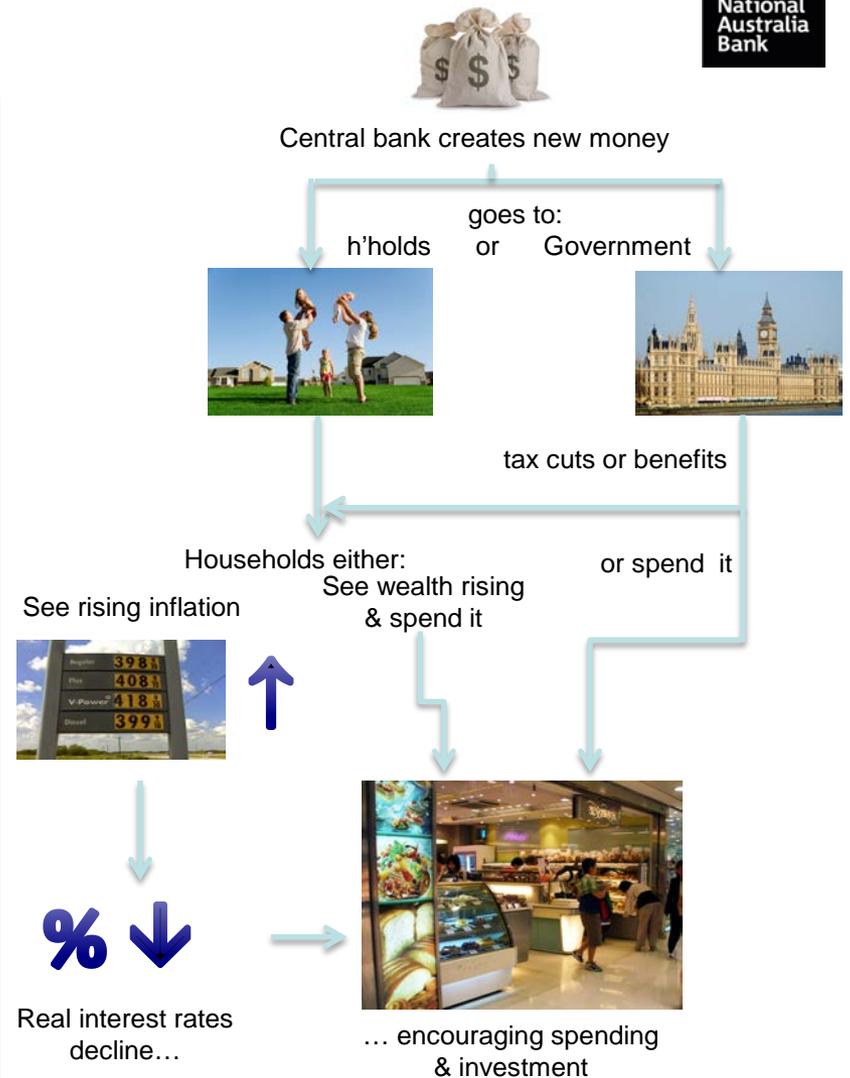


### Stimulus financed by central bank paying IOR



# How is it supposed to work?

- Most proposals for Helicopter Money are either money financed fiscal stimulus or 'money for the people' (the central bank sends 'cheques' out directly).
- The economics is pretty similar – the fiscal stimulus just adds another party – the Government. In either case the central bank creates new money and it is distributed (by the central bank itself or via Government using tax cuts/benefit increases) to another party (the Government or households) to spend.
- The two main ways it is expected to work in boosting the economy are:
  - ❖ A direct boost to spending – most obviously when the Government is the ultimate recipient of the money and spends the money on goods and services – or by households lifting their spending (except in the unlikely event they save all the money they are given).
  - ❖ Higher inflation expectations as a permanent increase in the base money should increase inflation. This in turn should reduce the real rate of interest giving households an incentive to consume now and business to invest.
- Proponents argue that it gets around some of the problems often raised with fiscal policy.
  - ❖ With normal fiscal stimulus, the Government issues debt on which it has to pay interest. This can give rise to concerns about the future, e.g. of higher taxes causing people to save any tax cuts or cheques they are given. However, with Helicopter Money neither the government or households ever pay the money back and pay no interest. As a result households should see any increase in money they receive as an increase in wealth, or if Government is the recipient, it should be free to spend without adding to fiscal problems.
  - ❖ Another concern with normal fiscal stimulus is that additional government debt can lead to 'crowding out' if higher government borrowing leads to higher interest rates. Again, as the monetary stimulus should put downward pressure on (real) interest rates crowding out is less likely (assuming there are unutilised or underutilised resources in the economy).



## Will it work? – expectations and reaction could be crucial

- Answering whether it will work depends on what you are trying to achieve. In theory, what is essentially fiscal and monetary stimulus combined should get some combination of inflation and real economic growth. Exactly what the mix will be, and how quickly its effects will emerge, is harder to determine. At an extreme (worst case outcome), it is even possible for inflation to be rising while real activity goes the other way.
- It could depend on a country's starting position. For example, for a country that is close to full-employment, inflation is going to be the more likely outcome.
- How people perceive any Helicopter Money announcement (which will almost certainly not be called that) will be crucial. If a cheque turns up in the mail how do households react to it. Do they see it as a windfall to be spent? Or does the fact that newspapers are saying that the central bank is dropping money out of helicopters cause a sense of crisis (or add to an existing crisis) and increase household and business caution.
- Some of the specific proposals involve the central bank cancelling any debt owed to it by the central government. This could result in the central bank having negative equity. While this, as a practical matter may not affect the central bank's ability to keep operating, the headlines that would result would hardly engender confidence. The flipside is that it would make it clear that the stimulus hasn't resulted in a greater debt burden for the central government.
- As noted before, it will also have to be integrated into the existing monetary policy framework (or replace parts of it) – changes to interest on reserves and the inflation targets of the central banks themselves. At the least it has the potential to cause confusion, potentially messing up expectations and adding to the crisis the policy might be attempting to address.
- A practical matter is how to calibrate the amount of Helicopter Money, given the lack of experience with it as a policy tool. A well thought out plan, with clear links to the central banks inflation objectives (effectively putting a limit on the amount of Helicopter Money) is more likely to generate the benefits hoped for. In contrast, a hastily conceived plan – maybe in response to an existing crisis – may not work so well.
- While it is easy to conceive that a combination of fiscal and monetary policy should stimulate the economy, what is the exit plan? A large Helicopter Money drop creates a large amount of bank reserves. When the economy is back on track, these constrain a central banks ability to raise interest rates. Central banks can get around this by:
  - ❖ setting interest on reserves but this involves a fiscal cost as the interest is lost revenue to the government and undercuts the whole point of Helicopter Money. If the central bank has negative equity then to pay the interest it may have to create more reserves.
  - ❖ Alternatively it can institute reserve requirements which amount to a tax on banks.
  - ❖ If it does neither, it has lost control of monetary policy and higher inflation is threatened. This would be over and above the inflation the helicopter drop was intended to achieve. In any event, inflation effectively acts as a tax on creditors and those holding money.
- People (and the Government) won't wait to ask the central bank what it will do once the economy has recovered, they will ask straight away as it has implications for their future finances. The answer could affect activity straight away; we have already seen with negative policy rates how concerns over banking sector profitability can affect financial markets.

“Is the advent of Helicopter Money going to result in everybody going out and spending as though there is no tomorrow when they get a cheque? Or are they going to ask, ‘What kind of world are we in when the central bank prints money and throws it out of the window?’”

*Raghuram Rajan, Governor, Reserve Bank of India, May 2016 (source: Financial Times)*

## Risks and pitfalls

- To this point, the discussion of Helicopter Money might sound too good to be true. It sounds like manna from Heaven – it creates wealth for households (or money to spend for governments) but not, in any meaningful sense of the word, debt for anyone.
- However, economics is also about trade-offs and risks. They exist with Helicopter Money and there are good reasons why the money financing of government has long been considered a taboo. Indeed, destabilising a nation's currency by (fraudulently) printing money has been a tactic used in wars including the American revolution and civil war, and by Germany in World War II ('operation Bernhard').
- We have already noted some of the risks and trade-offs involved. In particular, it is not clear how confidence (perhaps in the midst of an existing crisis) will react to news that the central bank is printing money, and to the other changes in monetary arrangements that might accompany it. Moreover, when it is time to stop the helicopter drops choices have to be made between paying interest on reserves (which affects Government finances in one way or another) or introducing reserve requirements (a tax on banks) or allowing higher (than targeted) inflation.
- The risk of inflation getting out of control is why central bankers are very sensitive to claims of debt monetisation, and why often there are laws put in place to prevent the practice. There are many cases where too much money printing has led to hyperinflation, with disastrous consequences, with a couple of examples noted opposite.
- This is not to say that a Helicopter Money program will lead to hyper inflation. Most hyper inflations occur following extreme events such as war, and examples for stable democracies are few. The issue with war is that the economic destruction it causes is immense. As a result the tax base is severely eroded (if not non-existent) meaning that the government cannot meet its current and future debt obligations (which normally rise significantly during war) let alone continue its normal operations without resort to the printing press.
- What it does point to is the need for credible institutions and the need for any Helicopter Money program to be consistent with the inflation goals of the central bank (even though the heart of Helicopter Money is a fiscal stimulus). The risk is that once the genie – money financed deficits – is out of the bottle, that it won't be possible to put it back in.

## Hungary's 1946 hyperinflation

With no tax base to rely upon, the Hungarian government decided to stimulate the economy by printing money...The government literally flooded the country with money to get the economy going again. Money may not have grown on trees, but it certainly flowed off the printing presses.

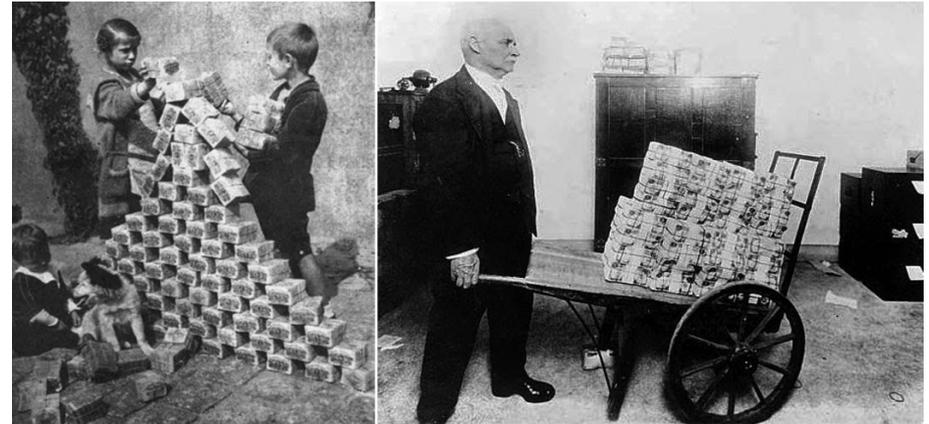
<https://www.globalfinancialdata.com/gfdblog/?p=2382>

The result: a peak monthly inflation rate of:

419,000,000,000,000,000%

<https://en.wikipedia.org/wiki/Hyperinflation#Hungary>

...don't forget Germany in the 1920s



<http://rarehistoricalphotos.com/children-playing-stacks-hyperinflated-currency-weimar-republic-1922/>

## Has it been done before?

- While some of the possible forms of Helicopter Money – e.g. central bank cheques direct to household – are novel, money finance of Government is not new at all.
- Not only has it occurred for centuries, but money creation to finance government happens to a small extent in most economies. Issuing new money creates what is called seigniorage as the cost of printing a \$100 note is small, but the Government can use it to obtain \$100 worth of resources. As an economy grows over time, there is increased demand for money, so the government gets some seigniorage revenue each year.
- However, this is by and large an ongoing process separate from the use of fiscal and monetary policy together to stimulate (or rein in) the economy.
- In this context, examples given of the successful use of money financing include: by the Union government in the U.S. civil war (although the civil war is also given as an example of how money financed government spending can go wrong), by the U.S. in World War II, by Japan in the 1930s, and Canada from 1935 to the early 1970s.
- As always, these historical parallels have important differences to today. For example, the Japan experience in the 1930s involved departure from the gold standard, a depreciation of the Yen, capital controls, changes in official interest rates and fiscal stimulus. Research differs on which factors were most important. Moreover, some argue that while initially successful, it set in motion forces that led to future inflation pressures, and also had dire consequences for its instigator, Finance Minister Korekiyo Takahashi (see account opposite).
- That monetary policy can stimulate the nominal economy is not in doubt; Helicopter Money is just monetary policy in a different form. After all, central banks traditionally hit their interest rate targets by buy and selling bonds in order to change the amount of base money.

“In 1931, after more than a decade of deep deflation, Finance Minister Korekiyo Takahashi used debt-financed fiscal expansion to bring about a domestic economic revival.

...Takahashi knew when it was time to rein in spending, and in 1934 he attempted to do just that. His focus on reducing military expenditure, however, attracted strong opposition from army officers, who assassinated Takahashi in 1936. His successor allowed the military budget to swell, funded by newly created money. This stimulated rapid inflation...”

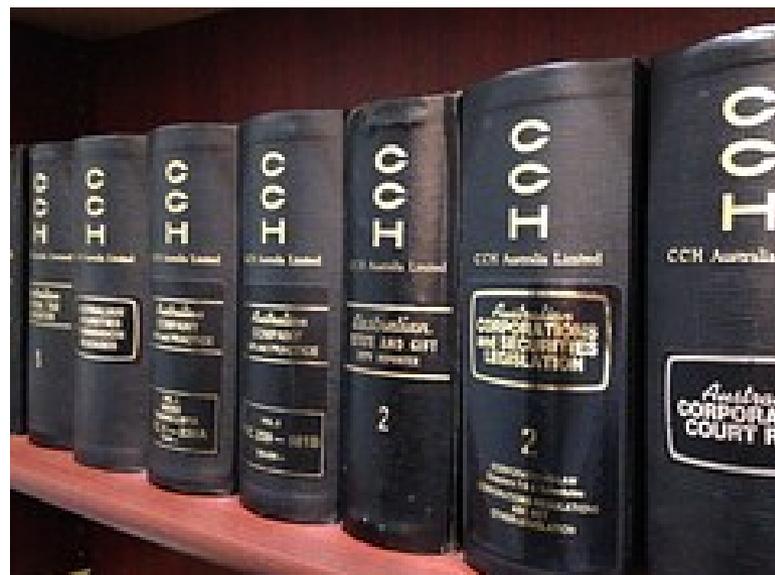
*Koichi Hamada, Special Economic Adviser to the Japanese Prime Minister*

(<https://www.project-syndicate.org/commentary/helicopter-money-japan-stimulus-by-koichi-hamada-2016-04>)

# Can it be done? – legal issues

## Legality

- A separate question to whether a central bank should engage in Helicopter Money is can it? The answer will vary according to the country in question and the form of Helicopter Money.
- The European Central Bank (ECB) is often seen as being particularly constrained due to the Treaty of Lisbon (Treaty on the Functioning of the European Union). Note that the United Kingdom is also a signatory to the Treaty of Lisbon. The Treaty includes an article which does not permit the ECB to directly finance (through debt purchases) national governments. Less clear is whether this would prevent the ECB purchasing bonds in the secondary market particularly if it is for the same purpose.
- Some argue that the ECB is less restrained when it comes to sending out cheques directly to households as there is no explicit prohibition and they have wide scope to undertake monetary policy actions. An alternative view is that they have no legal mandate to do so.
- Of course where there is a will there is a way, as can be seen in the proposed schemes which achieve the same aim but in a different (less direct way). For example, one proposal is for ECB to make zero interest, perpetual loans to banks who would then on-loan to households.
- Other major central banks appear to have an easier path to Helicopter Money. Both the Fed and the Bank of Japan can directly finance the government if the parliament suspends/allows exceptions to the Acts they operate under (as has been done in the past). In either event they could purchase the bonds in the secondary market which would achieve the same affect.
- Less clear is whether The Fed and the Bank of Japan can provide money directly to households (one view is that the Bank of Japan might require Prime Ministerial approval).
- For these central banks (ECB, Federal Reserve, Bank of Japan) also uncertain is whether some of the other bells and whistles sometimes proposed as part of Helicopter Money – debt write-offs or conversion of bonds to perpetual, zero interest debt – are legal.



## Can it be done? – institutional issues

### ...Don't forget the politics

- There is an old joke about an economist left alone on a deserted island with nothing but a can of food who, when asked what s/he would do, answers 'assume a can opener'.
- The discussion of whether central banks can send out cheques directly to households seems to be in the same vein, but this time assumes 'there are no politicians'. If anyone is going to send out cheques to households it surely isn't going to be central bankers. The only possible exception would be in the Eurozone where the multiplicity of sovereign governments in play may not be able to agree on what to do; but the ECB sending out cheques across the Euro-zone in such an environment could cause significant reputational damage to itself and magnify political problems in the Euro-zone. This is even before considering the logistical obstacles – does the central bank have the name of every person and they can match each person to a single bank account (or do they have their address)?
- More fundamentally, what this illustrates is that the Helicopter Money, as normally conceived, has key elements of fiscal and monetary policy, and will require the agreement of both players (or at least the government, who ultimately controls the central bank). If there is agreement, then there is scope for changing laws which might otherwise hinder action.

“The problem with this policy [central bank giving money out directly], which would most certainly be illegal in most or all jurisdictions, is not its economic logic, but its political legitimacy.”

*Ben Bernanke, Former Chair of Federal Reserve*



### Central bank independence...don't forget the fiscal side

- The other much debated institutional issue is how the central bank retains its monetary policy independence if it starts to co-operate with the government.
- Many proposals to address this problem boil down to allowing the central bank to determine the amount of Helicopter Money/fiscal stimulus. The idea is that if the size of the program is wholly determined by the central bank, which continues to target inflation (or a price level) then it should be able to retain its credibility. But the central bank cannot know what the Government would have spent without the Helicopter program, so whether these arrangements would work is unclear.
- Related to this, the government will want to have control of fiscal policy, and this could cause tensions. For example, if the central bank wanted to do Helicopter Money in reverse it would mean that the government may be required to tax people or cut back on spending.

# When and where might it be used

- Advocates of Helicopter Money have proposed its use in circumstances where:
  - ❖ There are question marks over the sustainability of public finances and inflation is well below target.
  - ❖ There is insufficient domestic demand, (standard) monetary policy tools are no longer effective and the government is unwilling to undertake debt financed fiscal policies.
  - ❖ There is a severe debt overhang (which might limit the effectiveness of normal monetary policy tools).
  - ❖ It is the only feasible way to deal with existing government debt.
- Based on this, the most obvious advanced economies to which one or more of these conditions might apply are the Euro-zone and Japan. In the Euro-zone, inflation is below target, unemployment is high and the public finances of some sovereigns in the region are problematic to say the least. In Japan, while unemployment is low, it is seeking to lift, on a permanent basis, the inflation rate. While its existing policy mix has been partly successful, progress has stalled. Japan also has a high level of government debt and large budget deficits.
- Some advocates of Helicopter Money consider that existing tools are either exhausted or not working or circumstances (debt overhang) suit its use. An alternative view is that, given the risks of money finance of government, Helicopter Money should only be a last resort.
- Most major central banks have some scope to ease policy using existing tools. There are also other ideas that have not generally been tried yet, such as changing monetary policy targets – e.g. a higher inflation target, and price or nominal GDP targeting.
- There is also scope to undertake fiscal stimulus or a combination of fiscal stimulus and QE.
  - ❖ While Japanese debt levels may be high, negative long-term bond rates do not indicate an inability for the Japanese government to borrow currently. While this might change in a ‘crisis’ situation, if it were to do so it would potentially mean that the risks associated with Helicopter Money are likely to take hold. If markets were to lose faith in the Japanese government’s ability to service its debt other than through printing money then to promise to do so could make things worse.
  - ❖ The Euro-zone is more complicated as there is no central fiscal agency and the ability of some governments to access financial markets is constrained (Greece etc). Current treaty obligations (agreed limits on debt to GDP ratios) are also a constraint (although they could be changed).
- While central banks may not be (publicly) keen on the idea, and still have other options, it is also possible that Helicopter Money could be introduced through the political process. For example, the U.K. Labour party has adopted a policy of ‘people’s QE’.

## Are central banks (and governments) really out of options?

### Some can still:

Cut policy interest rates (e.g. U.S., Australia)

Further cut deposit rates (e.g. Euro-zone, Japan)

Undertake more QE and forward guidance

### Policy options not tried yet:

Lift the inflation target

Adopt price level targeting

Adopt nominal GDP targeting

### Governments can still:

Undertake standard bond financed fiscal stimulus

### Governments and central banks can do:

Bond financed fiscal stimulus and QE at the same time

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